

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee –
1 December 2020

Subject: Setting of the Council Tax Base and Business Rates Shares for
Budget Setting Purposes 2021/22.

Report of: The Deputy Chief Executive and City Treasurer

Summary

To advise on the methodology of calculating the City Council's Council Tax base for tax setting purposes and Business Rates income for budget setting purposes for the 2021/22 financial year, together with the timing of related payments and the decision on business rates pool membership. The Chair of the Committee will be requested to exempt various key decisions from call in.

Recommendations

Members are asked to:

1. Note that the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has delegated powers to:
 - Set the Council Tax base for tax setting purposes in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2013;
 - Calculate the Business Rates income for budget setting purposes in accordance with the Non-Domestic Rating (Rates Retention) Regulations;
 - Agree the estimated council tax surplus or deficit for 2020/21;
 - Agree the estimated business rates surplus or deficit for 2020/21;
 - Determine whether the Council should be part of a business rate pooling arrangements with other local authorities;
 - Set the dates of precept payments to the Greater Manchester Combined Authority.

2. Note that the Chair of the Scrutiny Committee will be requested to exempt various key decisions from the call-in procedures.

Wards Affected: All wards

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.
- The Non-Domestic Rating (Rates Retention) Regulations 2013.
- The Non-Domestic Rating (Rates Retention) (Amendment) Regulations 2014.
- The Non-Domestic Rating (Rates Retention) (Amendment) Regulations 2016.
- The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2017.
- The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2018.
- The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) and (Levy Account: Basis of Distribution) Regulations 2019.
- The Non-Domestic Rating (Rates Retention, Levy and Safety Net and Levy Account: Basis of Distribution) (Amendment) Regulations 2020.

1.0 Introduction

- 1.1 The Council is required to notify the precepting authorities regarding the council tax and business rates decisions as part of the budget process. These are by prescribed statutory dates.

The decisions are as follows:

- agree both the annual estimated council tax surplus or deficit and set the annual Council tax base by the 15th January,
- agree both the annual estimated business rates surplus or deficit and set the annual Business rates base by the 31st January.

The actual level of the Council tax is subject to further approval and will be set out in the Council Tax Resolution report to March Council.

- 1.2 All the decisions and estimates will need to take account of the known impact of the Covid-19 pandemic and assumptions of the future financial implications. These includes revising assumptions for collection rates and changes in business rates and council tax bases.
- 1.3 The government has announced some flexibility to the spreading over three financial years of the financial impact of specific elements for what will now be a significant Collection fund deficit for Councils. This flexibility to be applied to Collection Fund deficits is applicable to both Council Tax and Business Rates but excludes any brought forward surplus or deficit from 2019/20 plus any deficit due to additional retail, hospitality and leisure reliefs that have been funded by specific additional section 31 grants. This spreading of deficits is a mandatory requirement and does not impact on the underlying council tax and business rates base position. The changes to these regulations will be reflected in the estimated positions.
- 1.4 There is also additional uncertainty as to whether some of the business rates reliefs will continue into the next financial year. The decisions will reflect any updates that are announced.
- 1.5 It is extremely complex to complete the estimates in the current situation. All the decisions will take account of the most up to date information available and will be set out in more detail in the sections that follow.

2.0 Setting of Council Tax Base

- 2.1 Section 31B of the Local Government Finance Act 1992, the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, and amendments introduced by the Local Government Finance Act 2012, require the Council to calculate its tax base for tax setting purposes. This calculation has to be based on data available at 30 November 2020 and the decision must be made between 1 December 2020 and 15 January 2021. The City Council has to notify the precepting authorities of its calculation for 2021/22 by 15 January 2021.

2.2 If the calculation has not been agreed by 15 January 2021 the regulations provide that the responsibility for calculating the council's tax base transfers to the precepting authority. They must calculate the tax base on behalf of the City Council, and themselves, on the basis of all the information available. This information will include any recommendations of the Deputy Chief Executive and City Treasurer; it will also include any amount calculated by the Secretary of State for the purposes of distribution of Government funding.

3.0 Basis of Calculation of Tax Base

3.1 The calculation of the amount of the council tax base is, in essence, the number of dwellings in an area belonging to each valuation band. The Council tax calculation is referred to as a 'Band D equivalent'. Once the Band D has been calculated and approved the individual bands are calculated in the ratios proportion to Band D.

3.2 The adjusted numbers of properties in each of the eight valuation bands A to H are expressed as numbers of Band D equivalents as follows:

Band A	6/9
Band B	7/9
Band C	8/9
Band D	9/9
Band E	11/9
Band F	13/9
Band G	15/9
Band H	18/9

3.3 The total number of properties is then adjusted to take account of discounts for disabled occupants, single occupiers and students, increases due to the continuation of the empty homes premiums, reduced amounts payable for exempt dwellings as well as reductions in accordance with the council tax reductions scheme. This is further adjusted by the proportion of the council tax for the year which the Council expects to be able to collect.

3.4 The statutory timescale for undertaking the tax base calculation means that the tax base calculation for 2021/22 is based on information that will be more than three months out of date at the time that the bills are issued. Whilst this would not be a problem for most authorities the fluctuating numbers of students and the high turnover of population in Manchester make it difficult to predict how many properties will be exempt, empty or occupied by a single person etc on 1 April 2021 and during the following financial year. There should be more accurate student numbers available as more exemptions are processed by the declaration deadline, as based on previous experience the student discounts are often not requested until the end of the first student term. This calculation is then made more difficult with the inclusion of the Council Tax Support Scheme within the calculation, therefore figures on which the tax base will be calculated represent a 'best estimate' at a point in time.

- 3.5 Prior to the introduction of the Council Tax Support Scheme on 1 April 2013 council tax benefit was classed as income within the Collection Fund and had no effect on the council tax base calculation. The council tax base calculation now takes account of an estimate of the amount of council tax reductions granted. The estimate is based on the assumed number of claimants, but these numbers can be volatile and are increasing significantly during the current Covid-19 pandemic.
- 3.6 The Council Tax Support Scheme, set the maximum level of council tax support for working age households at 82.5% of council tax due. This excludes the additional £150 granted as part of the hardship fund in 2020/21.
- 3.7 The tax base calculation will incorporate assumptions about the potential changes in the following, between 1 December 2020 and 31 March 2022:
- New properties;
 - Properties that are demolished;
 - Exempt properties (including all-student households);
 - Disabled Relief;
 - Single Person Discounts;
 - Empty properties; and
 - Council tax support scheme claimants.
- 3.8 The council tax base for 2020/21 was estimated at 118,864.6 Band D equivalents. The council tax base for 2021/22 will be validated when the tax base is recalculated using the information available to November 2020. Due to the additional uncertainty as a result of the impact of Covid-19 on the number of CTSS claimants and student numbers this will be finalised during December 2020 to ensure the most up to date information is used to support the key decision required. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has delegated power to agree the tax base for council tax setting purposes.

4.0 Basis of Calculation of Business Rates Base

- 4.1 Since 2017/18 Manchester has been part of the Greater Manchester business rates retention pilot which means that 99% of yield will be retained by the Council and 1% paid to the Greater Manchester Combined Authority, (for the Fire and Rescue element).
- 4.2 The retained business rates income is subject to a safety net and Greater Manchester authorities are protected at 97% of their baseline funding level compared to business rate income, Section 31 grant and any tariff or top up payments. This change in funding has brought a higher level of uncertainty in Council resources and has implications for how the budget is set.
- 4.3 The starting point for the calculation is the estimate of gross business rates payable by business ratepayers in 2021/22. This includes an estimate in the change in rates payable due to businesses added to or removed from the rating list during the year. This is adjusted by the estimated cost of mandatory

reliefs including the net cost of small business rate relief and costs of reliefs to charities, community and amateur sports clubs, partly occupied premises and empty premises. It is further adjusted by discretionary reliefs including the cost of relief to charities, non-profit making bodies and reliefs funded by a Section 31 grant. This gross rate yield after reliefs is then reduced by the estimate of losses in collection and the allowance for the costs of collection.

- 4.4 In addition estimates are made for the effect of appeals against rateable values affecting income due up to 31 March 2022.
- 4.5 In estimating business rates growth potential additions and removals to the rating list will be looked at for the financial year. This will include intelligence gleaned from planning applications. The effect of appeals on the rating list will be a best estimate using known outstanding appeals, an estimate of future appeals expected to be received affecting 2021/22 income, any knock-on effects of known appeals and percentage rates based on the effects of the settlements of historic appeals. This is proving to be very volatile; following the introduction of the reformed appeal process; 'Check, Challenge and Appeal'; for the 2017 Rating list. An amendment could also be made following the check process rather than continuing to become an appeal. There is limited information available from the Valuation Office for the new process; so, authorities are reliant on historical information and trends.
- 4.6 The Council currently continues to facilitate 4 Enterprise Zones where growth above the prescribed baseline is retained locally. Enterprise Zones are supported as they offer business rates relief to encourage new businesses to locate into these specific areas. Changes in the rating list for properties in the enterprise zones are considered and reported separately.
- 4.7 The Non-Domestic Rating (Rates Retention) Regulations require that the Council estimates the shares of business rate income for 2021/22 and notifies Central Government and the Greater Manchester Combined Authority of these amounts by 31 January 2021.
- 4.8 The effect of Covid-19 on gross rates and reliefs plus a significant increase in check challenge and appeals citing material change in circumstances has added additional complexity to the calculation of the base which means that a more detailed review of the data will be needed. Given the requirement to notify Central Government and the Greater Manchester Combined Authority by 31 January 2021 there will be a request to the Committee Chair to exempt the decision from call in. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has delegated power to agree the estimated business rates income for budget setting purposes.

5.0 Council Tax Surplus / Deficit

- 5.1 Billing authorities are required under section 32 of The Local Government Finance Act 1992 to estimate any surplus/deficit on their collection fund for the

year relating to council tax. Any such estimated surplus or deficit is shared between the billing authority and its major precepting authorities.

- 5.2 The City Council has to notify the precepting authorities (Police and Fire elements of the Greater Manchester Combined Authority), of its estimated Collection Fund surplus or deficit by 15 January 2021.
- 5.3 Due to the requirement to use the most up to date information, including the effect of the COVID-19 pandemic on collection rates and number of council tax support claimants, (i.e. end of December 2020) and to notify precepting authorities by 15 January 2021 there will be a request to the Committee Chair to exempt the decision from call in. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has delegated power to agree the estimated council tax surplus or deficit.
- 5.4 As part of its response to the pandemic Government has provided additional funding to local authorities in 2020/21, the 'hardship fund' to deliver financial support. The total allocation to Manchester for all measures was £7.458m. This includes using a proportion of the funding to reduce council tax bills by increasing the value of council tax support payments. The grant funding that was used to reduce council tax bills will be transferred to the Collection fund to cover the reduced income in 2020/21.

6.0 **Business Rates Surplus / Deficit**

- 6.1 Billing authorities are required under section 32 of The Local Government Finance Act 1992 to estimate any surplus/deficit on their collection fund for the year relating to business rates. Any such estimated surplus or deficit is shared between the billing authority and the Greater Manchester Combined Authority, (Fire and Rescue element).
- 6.2 The City Council has to inform Central Government (NNDR1 return) and the Greater Manchester Combined Authority by 31 January 2021 of its forecast Business Rates Collection Fund surplus or deficit.
- 6.3 Due to the requirement to use the most up to date information, including the latest estimated collection rates, (i.e. end of December 2020) and to notify Central Government and the Greater Manchester Combined Authority by 31 January 2021 there will be a request to the Committee Chair to exempt the decision from call in. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has delegated power to agree the estimated business rates surplus or deficit.

7.0 **Pooling of Business Rates**

- 7.1 2020/21 is the seventh year that Manchester has participated in a business rates Pool; membership includes the ten authorities within Greater Manchester, Cheshire East and Cheshire West and Chester. An in-principle confirmation that all 12 authorities wish to participate as members of the Pool

in 2021/22 has been received. Each authority will need approval, through its respective governance arrangements, to make a final decision on whether it wishes to be part of the Pool for 2021/22 within 28 days of the provisional Local Government Finance Settlement. The date for the Finance Settlement has not been confirmed. The Spending Review will be announced on 25 November and will be a one-year budget announcement. The government has changed its plans for a multi-year spending review after Covid-19 has significantly impacted on the certainty of public finances.

- 7.2 The purpose of pooling business rates across the individual authorities is not intended to alter individual authorities' income levels but to retain any levy that might have otherwise been paid by certain of the authorities to Central Government. The levy was applied to the growth above baseline for tariff authorities. The value of this levy is now retained locally by the levy authorities and the Pool. For 2019/20 this equated to a £4.9m benefit of which £2.4m was retained by the Pool.
- 7.3 If any of the authorities, which have already expressed an interest so far decide to withdraw from the Pool then the proposed pool will dissolve for the 2021/22 financial year. The willing remaining authorities would then have the opportunity to create a new Pool.
- 7.4 The decision on whether Manchester City Council should continue to be part of the pooling arrangement is delegated to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources.

8.0 Timing of Payments

- 8.1 Payment dates for the share of Council Tax payable to the Greater Manchester Combined Authority have to be agreed and notified before 31 January 2021. The payment dates are proposed as the 20th of each month for 2021/22, the same dates as for 2020/21.
- 8.2 The Non-Domestic Rating (Rates Retention) Regulations state that the Council should make payments of business rates shares in accordance with the schedule of instalments. There is an option to agree different dates with the Greater Manchester Combined Authority if required. The payment dates are proposed as the 20th of each month for 2021/22, the same dates as for 2020/21.
- 8.3 From 2017/18, Manchester has been responsible for administering the payments and receipts of top up and tariffs to members of the Greater Manchester and Cheshire Business Rates Pool. MHCLG make top up payments to Manchester in line with the dates in the schedule of instalments and Manchester distribute these to the top up authorities on the same dates. Manchester also received tariff payments from the tariff authorities on the same date, thus avoiding investment implications. On the assumption that Manchester administers the pool in 2021/22 it is expected that the payment arrangements will remain the same.

9.0 Recommendation

9.1 The recommendations appear at the front of this report.